

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 H-03 L-03 DRC-01 /164 W

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R 021431Z OCT 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8252

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

LIMITED OFFICIAL USE SAN JOSE 3804

GUATEMALA ALSO FOR ROCAP

E.O. 11652: N/A

TAGS: EFIN, CS

SUBJECT: CENTRAL BANK ANNOUNCES MEASURES TO DEAL
WITH BALANCE OF PAYMENTS SITUATION

REF: SAN JOSE 3752

1. CENTRAL BANK EXECUTIVE PRESIDENT BERNAL JIMENEZ
ANNOUNCED SEPTEMBER 30 A SERIES OF MEASURES DESIGNED
TO PROTECT COSTA RICA'S BALANCE OF PAYMENTS. THESE
ARE TO BE FOLLOWED BY COMPLEMENTARY MEASURES, HE
SAID, SO THAT BY THE END OF OCTOBER DECISIONS NECESSARY
TO PREVENT A DETERIORATION OF THE ECONOMY WILL
HAVE BEEN TAKEN. THE MEASURES ANNOUNCED SEPTEMBER 30 INCLUDED:

(A) A CHANGE IN THE STRUCTURE OF INTEREST
RATES FOR LOANS;

(B) RESTRICTIONS ON TRANSFER OF CAPITAL ABROAD; AND
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(C) AN INCREASE IN INTEREST RATES PAID ON FOREIGN
CURRENCY DEPOSITS.

2. THE NEW STRUCTURE OF INTEREST RATES ON LOANS REPRESENTS AN OVERALL INCREASE THAT WILL MOVE COSTA RICAN RATES CLOSER TO THOSE PREVAILING ABROAD, BUT PREFERENTIAL SUBSIDIZED RATES ARE RETAINED FOR A NUMBER OF ACTIVITIES. THE NEW RATES WILL BE: 7 PERCENT FOR NON-TRADITIONAL EXPORTS; 8 PERCENT FOR SMALL INDUSTRIALISTS, SMALL FARMERS, AND ARTESANS; 9 PERCENT FOR LARGE COFFEE GROWERS, CATTLE FEEDING, DAIRY-ING, AND MEDIUM-SCALE INDUSTRY; 10 PERCENT FOR LARGE-SCALE INDUSTRY; 12 PERCENT FOR CERTAIN SMALL, (LESS THAN 5,000 COLONES) PERSONAL LOAN FOR EMERGENCIES OR HARDSHIPS; AND 18 PERCENT FOR COMMERCIAL LOANS.

3. THE SECOND NEW MEASURE, WHICH STOPS SHORT OF FULL EXCHANGE CONTROL, INVOLVES A SURVEILLANCE OF CAPITAL MOVEMENTS IN AN ATTEMPT TO PREVENT SPECULATIVE OUTFLOWS. PERSONS BUYING FOREIGN EXCHANGE WILL BE REQUIRED TO SPECIFY THE PURPOSE FOR WHICH IT IS TO BE USED. TRANSFERS WILL BE PERMITTED FOR ALL NORMAL COMMERCIAL AND PERSONAL TRANSACTIONS "EXCEPT FOR TRANSFERS OF CAPITAL WITHOUT REAL OBLIGATIONS ABROAD, OR TRANSFERS THAT IN THE OPINION OF THE CENTRAL BANK CONSTITUTE AN UNJUSTIFIED TRANSFER OF NATIONAL CAPITAL." AN INDIVIDUAL OR FIRM CAN OBTAIN UP TO \$300 BY A SIMPLE DECLARATION OF PURPOSE, AND LARGER AMOUNTS BY PRESENTING A JUSTIFICATION. TRAVELLERS WILL BE ABLE TO OBTAIN UP TO \$1,000 BY SHOWING THEIR PASSPORTS AND INTERNATIONAL TRAVEL TICKETS, AND LARGER AMOUNTS BY SHOWING EVIDENCE OF INTENT TO STAY FOR AN EXTENDED PERIOD ABROAD. FOREIGN CAPITAL INVESTED IN COSTA RICA, OR PLACED IN FOREIGN CURRENCY ACCOUNTS WHICH WERE DESIGNED TO STIMULATE AN INFLOW OF CAPITAL, WILL NOT BE AFFECTED BY THESE RESTRICTIONS -- REGARDLESS OF INTEREST, DIVIDENDS, AMORTIZATION, AND CAPITAL WILL CONTINUE TO BE GUARANTEED.

4. THE THIRD NEW MEASURE TAKEN BY THE CENTRAL BANK INVOLVES AN INCREASE IN THE RATE OF INTEREST TO BE LIMITED OFFICIAL USE
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PAID ON FOREIGN EXCHANGE DEPOSITS. IT APPLIES TO DEPOSITS FROM ABROAD IN AMOUNTS OF \$10,000 AND MORE, COMMITTED FOR A PERIOD OF ONE YEAR OR LONGER. THE NEW RATE WAS NOT SPECIFIED IN THE CENTRAL BANK'S ANNOUNCEMENT BUT IT WAS STATED THAT IT WILL BE AT THE INTERNATIONAL LEVEL.

5. COMMENT - THE NEW MEASURES ANNOUNCED BY THE CENTRAL BANK ARE THE FIRST IN A SERIES OF ACTIONS THAT WILL BE NECESSARY TO REDRESS COSTA RICA'S SERIOUS

BALANCE OF PAYMENTS SITUATION AND PERILOUS FOREIGN EXCHANGE POSITION DESCRIBED IN THE EMBASSY'S LATEST BALANCE OF PAYMENTS REPORTS (REFTEL). UNFORTUNATELY, THE MEASURES ANNOUNCED DO NOT SEEM TO DEAL WITH THE REAL PROBLEM -- EXCESS DEMAND FOR IMPORTS FUELED BY A CREDIT EXPANSION THAT CENTRAL BANK SOURCES ADMIT PRIVATELY HAS REACHED 35 PERCENT THIS YEAAR. IN ATTEMPTING TO TREAT THE SYMPTOM (CAPITAL FLIGHT) RATHER THAN THE DISEASE, THE GOCR RISKS CREATING AN EFFECT OPPOSITE TO THAT INTENDED. RESTRICTIONS ON CAPITAL MOVEMENTS, HOWEVER MILD, WILL OBVIOUSLY IMPEDE THE CAPITAL INFLOW THE GOVERNMENT WAS HOPING TO ENCOURAGE SEVERAL WEEKS AGO BY RAISING INTEREST RATES AND CREATING SPECIAL DEPOSIT ACCOUNTS FOR FOREIGN CURRENCY INFLOWS. BY FURTHER REDUCING CONFIDENCE IN THE STRENGTH OF THE COLON, THEY MAY ALSO INCREASE CAPITAL OUTFLOW.

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